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HOW MANY ACRES

CANADA'S IMMEDIATE WHEAT PROBLEM

What policy should Canada adopt toward wheat production in 1941? Specifically, how many acres should be planted next spring? What agencies and methods should be employed and where should responsibility rest?

These are questions now pressing for prompt answers. A few months ago the immediate problems were the financing, delivering and storing of the 1940 crop. It is thus by a series of decisions, each dealing with particular conditions then demanding special attention, that Canada's general wheat problem will be worked out, rather than by a single decision on a complete plan drawn up beforehand. It is very important, therefore, that every decision on particulars should take into account the problem as a whole and contribute to its final solution.

The phase of the general problem now immediately confronting us has been created by the unprecedented size of our present stocks of wheat. As a wheat merchant, Canada finds herself with inventories far in excess of any in past years and too large for the warehousing facilities with which she had equipped herself. The building up of these stocks was not deliberately planned. They exist by inadvertence, as it were. Looking back, the course of their accumulation and its causes can be traced but the developments were not noted as they occurred. They are now, however, a reality to be faced.

HOW BIG ARE OUR STOCKS ?

Before considering what action to take we should be clear upon the facts and upon the nature of this particular problem. How big are our stocks of wheat, not only in number of bushels, but in relation to our trade and its prospects and to other known stocks? What effects have already been produced or are to be expected from this accumulation? What caused it?

As reported by the Dominion Bureau of Statistics, our carryover of old wheat on July 31, last, was 300.7 million bushels and our new crop yielded 551.4 million. This would make our wheat supply for the current crop year 852.1 million bushels. Our average supply during the previous 5 years had been 413 million bushels. Our largest supply in any past year was 660.5 million bushels in 1928-29.

AN UNPRECEDENTED CARRYOVER

Canada never has had a market within any year for a quantity of the magnitude of this year's supply, and under present conditions it seems certain that the larger part of it must be carried forward into next year. On no reasonable assumptions can this carryover be figured at less than 500 million bushels and if the rate of export prevailing for the first 25 weeks of the season does not increase and home consumption remains at approximately last year's level, the carryover may exceed 570 million bushels.

By comparison, Canada's carryover in 1938 was only 24.5 million bushels and in the previous year only 37 million. The five years, 1923-1927, are commonly taken as a base period for determining normal carryovers for all countries. In that period Canada's carryovers averaged 39.6 million. The high record in the past was 219 million bushels in 1933 (Appendix A).

THE PREVIOUS RECORD

No country in the world has ever before carried over so great a quantity as 500 million bushels. The record has been 391 million in the United States in 1932 at the peak of the accumulations under the purchasing and loaning policies of the Federal Farm Board. But, for the United States that carryover represented only about 60 percent of one year's domestic consumption whereas Canada's prospective carryover would meet domestic requirements, including seed, for the next four years.

A normal combined carryover for all countries in the world for which reliable statistics are available is only 542 million bushels. This is the average for the five years 1923-27, as computed by the Food Research Institute of Stanford University, for all the world except Asia and the Soviet Union and includes quantities afloat on the ocean. Canada's carryover this year may therefore be large enough for a year-end inventory for the whole world as above defined.

Canada's surplus is thus seen to be very large, indeed, and literally unprecedented.

ENOUGH FOR TWO YEARS' TRADE

If Canada planted no wheat at all next spring and none in 1942, her present surplus would enable her to maintain both her domestic and her foreign trade for two years

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at the full average of the last five years, would provide seed for the third year so that she might again become a producer, and yet leave her some carryover on August 1, 1943.

But will no wheat be planted in Canada during the next two years? One may figure what could be done with 500 million bushels and perhaps come to the conclusion it might not after all take so very long to dispose of it, but if the quantity is not 500 million but 500 million plus all the wheat that will be produced year by year, the carryover assumes more formidable proportions.

OTHER WORLD STOCKS

As to the relation to other known stocks, the Bureau of Agricultural Economics of the United States Department of Agriculture estimates the wheat supply of the world (ex-Russia and China) for the current crop year at 5,536 million bushels. World disappearance last year is placed at 4,052 million bushels, but it is estimated that disappearance this year, because of war developments, will fall short of that figure. Supplies are smaller in Europe than last year because of below average crops but are larger in the rest of the world where they constitute a record.

Of Canada's chief competitors in export, the United States faces the prospect of the largest carryover since 1933 and has a larger area under winter wheat than last year, the condition of the growing crop as of December 1 being reported as the best in ten years. Argentina has a large crop. Australia, with a poor crop, is carrying a substantial quantity of old wheat unshipped and unless transportation conditions improve will have a normal carryover next summer.

Canada is therefore carrying a very large surplus in a full world.

WHAT ARE THE EFFECTS ?

What is the significance and what are the effects of excessive carryovers?

When stocks at the end of a crop year and just on the eve of the receipt of the new crop are larger than is necessary for the satisfactory conduct of current business they are said to be excessive to that extent. The significance of an excessive carryover is that it is

positive, physical evidence that the supply during the preceding year had been greater than the effective demand.

If the carryover is smaller at the end of a year than at the beginning, it is evidence that demand had been greater than the quantity produced in that year and had reduced the previous excess. Carryovers are therefore the simplest and surest indexes of the general relationship actually existing in any period between supply and effective demand.

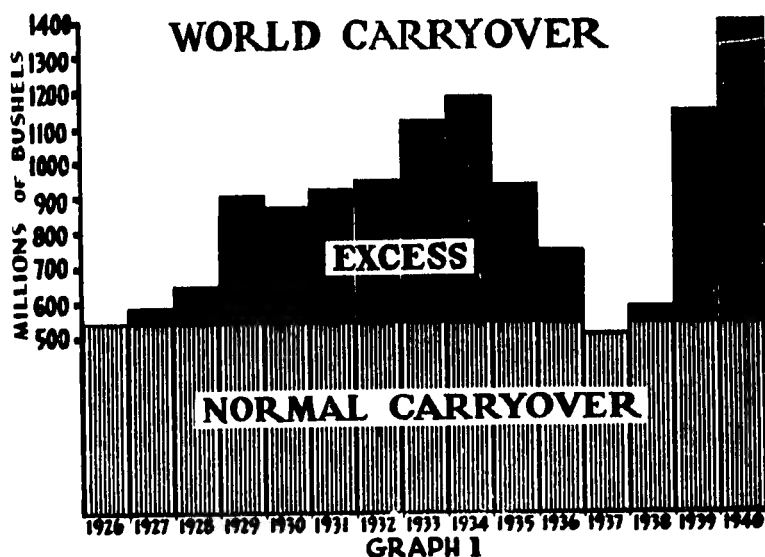
PRICES FALL AND COSTS RISE

But excessive carryovers are also causes. They make the supply of the new year greater than it otherwise would have been and, unless production has been reduced, they tend to perpetuate a condition of excess supply with all its consequences. The two important consequences are: (1) effects on price and (2) effects on costs. Of these, the effects on price are by far the more important.

What are the facts about world carryovers, excesses and prices, and about the relation between them? The facts of the period from 1926 to date are those it is most important to have before us when considering our immediate problem. These can most briefly and clearly be presented in graphic form.

WORLD CARRYOVERS

Graph No. 1 shows world carryovers for the period. The total height of a column represents the total carryover. Where a carryover exceeds the "normal" quantity (the average for 1923-27) the "excess" appears in solid black. The figures used (Appendix A) are those of the Food Research Institute and do not include returns for Asia and the Soviet Union.

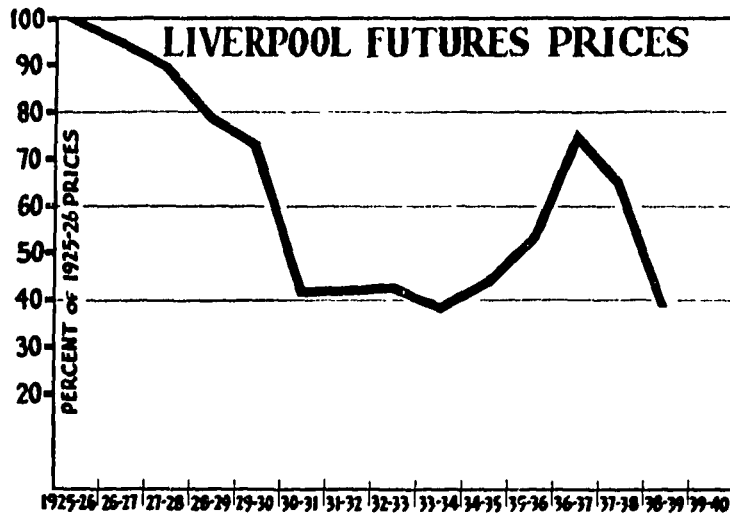


Attention will later again be called to this graph but in the meantime the rapid and almost continuous accumulation of excess up to 1934 and the startlingly abrupt reversals of position after that year may be noted. A normal carryover, as already stated, is 542 million bushels, that of 1934 was 1,188 million, containing an excess of 646 million, and that of 1940 was 1,400 million, containing an excess of 858 million.

WORLD PRICES

The facts about prices appear in Graph No. 2. Yearly averages of the closing prices of nearby futures on the Liverpool market are used as being the prices most representative of wheat values on a world scale. The prices are plotted as percentages of the 1925-26 price, but the figures are given in the Appendix B.

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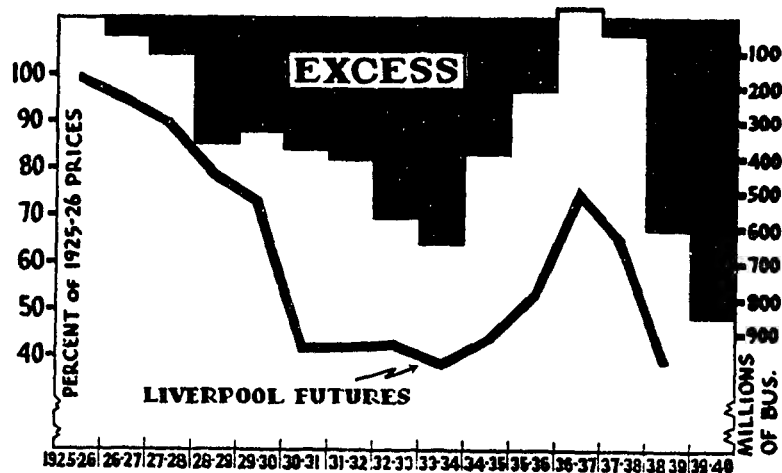


GRAPH 2

In this graph the rapid and almost continuous fall in price to a low point in 1933-34 and the sudden sharp rise and equally sudden collapse are the outstanding features. As the Liverpool market was closed on the outbreak of war the price line cannot be extended for 1939-40.

THE RELATION BETWEEN THEM

It is obvious at a glance that the curve of price had, in reverse, the same characteristics as the curve of quantities. As quantities became larger prices dropped, and when quantities were falling prices rose. Just how the two movements compare can best be seen if the figure of excesses is inverted over the price line, as in Graph No. 3. Excesses are here used as the indisputable indexes of the relation existing in fact between supply and effective demand.



GRAPH 3

HOW MANY ACRES?

The prices plotted are the prices as quoted from year to year without reference to the changing value of money. General prices were falling from 1926 to 1934 but not so fast as wheat prices. If the wheat prices are "deflated" by the indexes of general prices to arrive at what are called "real" prices, the course of the price line would bend upward in varying degrees and the 1936-37 price, for example, would be found to reach 100.8 percent of the 1925-26 price -- in that case a perfect fit. This makes the correspondence even more remarkable, but the showing when absolute prices are used is impressive enough.

There is more than coincidence here; there is condition precedent and consequence. Prices move with relative quantities.

The effect of an excess, it is important to recognize, is not alone on the price at which that excess is finally sold but also on the market value of all the new crops produced while it is in existence. The excess in 1934 was 646 million bushels, but the total world supply for 1934-35 was 4,678 million which was the total affected in that one year and six other somewhat similar totals had been affected while the excess was accumulating after 1927.

THE COSTS OF EXCESSES

Effects of excesses on costs must also be taken into account. Whoever carries the excesses has made an investment not realizable for an indefinite period and must meet current changes. In the present case in Canada the government must provide the money. At the fixed minimum prices on an excess of some 500 million bushels the investment may at some stage be over 300 million dollars. This is a sum comparable with the proceeds of the last war loan.

The government is already liable for storage charges on this wheat, whether in elevators or on farms, at the rate of $2/3$ of a cent per month. With interest on the investment, incidental expenses and administration charges, the outlay can hardly fall short of one cent per month. One cent per month on 500 million bushels is 5 million dollars per month.

And the above are by no means all the costs. There is investment in additions to storage facilities never needed before and perhaps not to be needed again for many years, if ever. Extra handling is involved in transfers

from one country elevator to another in the use of temporary storage not equipped for bulk handling and in moving out of the direct line of export. All these are diversions of capital and labor at a time when there is great need of both.

SUCH COSTS NOT RECOVERABLE

The serious point about such costs is that they are not recoverable, for they cannot be added to the price, which, to the extent indicated in Graph No. 3, is made by relative quantities irrespective of costs. An individual or a class may, of course, succeed in liquidating an investment or in recovering an outlay, but unless the final consumer of the excess will pay more because these extra costs were incurred what happens is only that the burden is shifted to some other individuals or classes, perhaps to the taxpayers.

The heaviest costs of excesses are, however, outside the above categories and are not recorded in balance sheets. They consist in the loss on all new crops because a price has to be accepted for them which is lower than it would have been if there had been no excess. Those who figure that Canada made a profit on its 1934 excess because, owing to the accident of a severe drought period, that fraction of the supply was finally sold for more than the book cost to the government, leaves all this loss out of the account.

Judged by every business standard, Canada's wheat inventory is too large. No business man would plan such an inventory in his own business or could fail to be gravely alarmed if through lack of proper attention on his part he discovered it had come to exist.

WHAT ABOUT WAR RESERVES?

But it is said that ordinary business principles should not govern in the present situation. It is our patriotic duty to ensure adequate supplies for the United Kingdom during the war and, on humanitarian grounds if for no other reason, we should be prepared to contribute at its close to the relief of distress because of wheat shortage, if any exists, in the now occupied countries of Europe. Granting the validity of both these considerations the question is whether they materially alter the proportions of our problem. A full discussion cannot be undertaken here, but a few general observations may be offered.

HOW MANY ACRES?

Britain should not need more, or much more, wheat during the war years than in normal times and Broomhall reports that it is understood her own wheat acreage has been increased this year by some 50 percent, which should reduce her dependence on imports by over 30 million bushels per year. The extreme, and improbable, contingency for which we need provide, would be conditions in which Britain became dependent for her imports wholly on Canada.

FAR MORE THAN ENOUGH FOR BRITAIN

In any but a drought year our crop would provide for ourselves and for Britain too, without drawing on reserves. This would be the case even if Britain had not increased her acreage. Our competitors in export would be only too willing to take over all our other customers and, if deprived of their customary large share of the British market, would probably succeed in doing so in any event by making prices we would not care to meet. Even in our worst drought year, 1937, we produced a substantial surplus for export. On the off chance that such a drought should recur in the next year or two a reserve only a fraction of our present surplus of 500 million bushels would be sufficient.

Britain can have no anxiety about overseas supplies, which are at a record level. Her concern is over a possible inability to transport them. Against this possibility she has laid up reserves at home, the only position in which reserves would be of any use in such an emergency.

OR POST-WAR RELIEF

It is by no means certain the continent of Europe will be seriously short of breadstuffs at the close of the war. There is more probability of a deficiency in other foodstuffs. Certain countries may, however, have been deprived of their share of wheat. Our present excess is so large that if there was not at that time a bushel of wheat in Norway, Denmark, Holland, Belgium, Luxembourg or France, it would provide a full year's consumption for these six countries, including seed requirements, at the highest rate of wheat disappearance in the last five years and still leave us a carryover. Our responsibility hardly extends so far. Other wheat countries will be keen to sell whatever Europe can then buy and will be prepared to share in the relief of distress where payment cannot be made.

WHAT CAUSED THE EXCESS?

Having noted the proportions of our excess stocks of wheat and the influence of oversupply on prices and costs, it becomes important to understand under what special conditions the present unprecedented accumulations have occurred. What has been the cause of the excess?

Canada's excess is only a part, although the largest single part, of a record world excess. The world excess must be explained and not that of Canada only. The world position as it developed is shown in Graph No. 1.

Looking again at that graph it will be noted that its outstanding features are (1) the rapid and almost continuously progressive accumulation up to the year 1934; (2) the complete disappearance of all excess within the three years 1935-1937; and (3) the re-establishment within the next three years of an excess of even greater volume than that of 1934.

CARRYOVER PROBLEM UNKNOWN BEFORE 1928

Never before in the long history of wheat marketing had there been comparable accumulations or such abrupt reversals of conditions. Crops have always varied in size from year to year and so have carryovers, but in no single year had a carryover quite equalled even that of 1928 and rarely had there been successive increases and never on the scale of these between 1928 and 1934. It may fairly be said that never before had the world been conscious of a carryover problem. The period between 1928 and 1940, therefore, cries out for explanation.

The world crop of 1928, due to a sharp increase in acreage and a high yield, was suddenly much bigger than any previous crop. This in large part, but not completely, explains the carryover of 1929. What is exceptional in character is the course of development after 1930.

GOVERNMENTS INTERVENE

Before the close of the crop year 1928-29 two powerful movements affecting wheat began to manifest themselves, one in the principal deficiency countries in Europe and the other in the world's major surplus countries. It is not necessary to the present purpose to enquire into the relationship between these movements at the beginning or into how they may later have interacted. Wheat prices had been falling since 1926 in strict conformity with the increase

in supply over effective demand, as appears in Graph No.3. Beginning in 1929 the governments of the surplus countries set themselves to check this decline and if possible raise prices. At practically the same time the governments of the deficiency countries set themselves a double object, to raise prices to their farmers but also to increase home production, and the former was to be the principal means of accomplishing the latter.

Historically, the first important government measure in either group was the Agricultural Marketing Act introduced in the United States Congress in the early weeks of 1929. This act constituted a Federal Farm Board with a revolving fund of 500 million dollars to bring the prices of agricultural staples to a parity with other prices by promoting "effective merchandizing". The policy was not to prevent surpluses by regulating quantities but, in the words of the act, "to prevent such surpluses from causing undue and excessive fluctuations or depressions in prices"; that is, to influence prices notwithstanding quantities.

Action by Canadian governments with the same general objects began some months later, financial support to marketing operations being provided by guarantees of bank accounts rather than by cash grants. Argentina, Australia and the Danubian countries also put measures of various kinds into effect toward the same general ends. And, paralleling these developments, the deficiency countries rapidly expanded the use of government powers to raise prices within their own borders.

SOME HAD COSTLY SUCCESS, OTHERS FAILED

Now, deficiency countries, if they think the cost to their consumers and taxpayers is justifiable, can succeed in raising both domestic production and the prices to their farmers because they control a market for all their farmers produce. Surplus countries cannot in the same way make a market for all they produce but must accept for their surpluses what is left of the markets of the deficiency countries. If they persist in producing more than this, the excess has no realizable commercial value and the average unit value of their whole supply is proportionally reduced. In the result, therefore, the deficiency countries, at high cost, achieved a measure of success, for their acreage increased and their farmers received higher prices; but for the surplus countries prices continued to fall as excesses piled up.

A CASE IN POINT

A concrete instance is better than argument on this point. On August 25, 1933, a date selected because an international conference was then sitting to try to find a remedy for the situation, domestic wheat was quoted on the German grain exchanges at 17.40 reichsmarks per quintal (\$1.65 cents per bushel) and on the same day on the same exchanges Canadian No. 2 Northern, a far superior wheat, was quoted, delivered c.i.f. Hamburg, at 8.53 rms. (82 3/8 cents), not quite half the price of German soft wheat. But this latter price did not include duty, which was then \$2.41 1/4 per bushel. Between 1928 and 1932 Germany had increased her wheat acreage by 32 percent.

This is an extreme case but nevertheless representative. At great cost, Germany, a deficiency country, had achieved a measure of success, while the surplus countries had signally failed, for the international price of wheat, far from having been raised above, or even stabilized at, the 1928-29 level, had by 1933-34 actually fallen below that level by over 50 percent.

ALL POLICIES INFLUENCED ACREAGE

Although increase of acreage was not a deliberate object with surplus countries, as it was with deficiency countries, the measures adopted by the former could not but have an influence on production. Guarantees and bonuses, if not always a direct stimulus to expansion, at least encouraged stabilization and while attempts were being made by governments with hundreds of millions of dollars to offset the effects of surpluses, producers must naturally be disposed to await the outcome before deciding that curtailment was necessary. One part of the world was deliberately promoting expansion and the other part was neutralizing the influences which normally tend to keep supply in touch with demand. There could be only one result--supply ran away from demand as it never had done in past years.

CAUSE OF TROUBLE SOON REALIZED

The surplus countries were soon in trouble and their governments seem early to have come to a realization of the true cause. The judgments formed as the results of experience at that time should be before us now when the world is again in exactly the same kind of trouble as in 1933 and 1934.

HOW MANY ACRES?

After long extended preliminaries an international conference was called on the initiative of the major exporting countries. It met in London in August, 1933. The following had been agreed upon as the object of the conference:

"To consider the measures which might be taken in concert to adjust the supply of wheat to effective demand and eliminate the abnormal surpluses which have been depressing the wheat market and bring about a rise and stabilization of prices at a level remunerative to the farmers and fair to the consumers of breadstuffs".

This was an explicit recognition that the measures in effect since 1929 had failed to raise prices, that surpluses were depressing them and that the remedy must be the elimination of surpluses by an adjustment of supply to effective demand.

CONCLUSIONS IN THE UNITED STATES

To supplement this evidence of conclusions at that time brief reference may be made to developments in the United States and Canada. In the United States the Federal Farm Board, which put to use all its powers and immense sums of money in efforts to accomplish the purposes for which it was appointed, stated in its second annual report in 1931:

"It was clear, in the early stages of the board's work, that no important stabilization efforts could succeed, except temporarily, unless farmers themselves adjusted production to effective demands".

This view it confirmed in its third and final annual report which declared that

"Experience with stabilization thus demonstrates that no measure for improving the price of farm products other than increasing the demand of consumers can be effective over a period of years unless it provides a more definite control of production than has been achieved so far".

The United States government accepted this conclusion, abolished the plan of the Agricultural Marketing Act and in 1933 passed new legislation based on the principle of "acreage allotment".

WHAT CANADIAN GOVERNMENTS DECIDED

In Canada the governments of the three Prairie Provinces had been the first to undertake the support of marketing operations but by 1931 active measures to influence prices had been taken over by the Dominion government. Expressions of opinion by leaders of all four governments in 1933 could be quoted to establish the general conclusions all had reached, but the following references to more formal acts may suffice. All governments approved the calling of the London conference and the provincial governments were represented on the Canadian delegation. They all accepted the plan of export quotas for two years, which was the chief concrete outcome of that conference, and they all agreed that regulation of production was involved if that plan was to be effective. To prepare the public for the legislation necessary to carry out the quota plan a pamphlet was issued "by authority of the governments of the Dominion of Canada and of the provinces of Manitoba, Saskatchewan and Alberta", the first sentence of the final paragraph of which reads:

"The wheat producers of Western Canada must adjust their production to the quantity for which a remunerative market can be secured".

TOOK FULL POWER TO ACT

Not relying wholly on this admonition to producers, the provincial governments took power by the acts passed early in 1934 "to make all such orders, rules and regulations and to do all such acts and things" as might be considered "necessary and requisite" to bring the production of wheat in the province in 1934 into "proper alignment" with estimated export demand and domestic requirements during the crop year 1934-35. These powers were conferred in a clause which began with the words "The purpose of the Agreement in Schedule A (the London Agreement) being to eliminate an abnormal surplus" -- not merely to allot shares in the export market.

These powers were not used because the farmers responded to the admonition given them by a 2 million acre reduction in area under crop, only part of which was due to unfavorable conditions at seeding time, and a continuation of those conditions made it certain that the 1934 crop would not yield even the agreed quota. But the fact that such powers were asked for and granted is evidence of a conviction that quantities must be adjusted to demand even if the extreme powers of the state had to be applied.

THEN CAME THE GREAT DROUGHT

If the real problem and the only effective solution were so clearly understood and agreed upon in 1933, why did nothing happen? Why are guarantees, loans, bonuses, subsidies, extravagant tariffs and all the other types of measures still in force, and why are there the same, or worse, surpluses and the same disastrously low prices?

The answer is to be found in the Great North American Drought, which had its most severe effects on the combined output of the United States and Canada in the five years 1933-1937. To how great an extent world supplies were affected by this drought may not generally be realized. In 1933 the decline in North America was almost completely offset by exceptional yields in other parts of the world and especially in Europe. In the three years, 1934-36, the United States and Canada produced an average of only 852 million bushels per year as against a pre-drought (1928-32) average of 1,276 million, a decline of 424 million per year. In this three year period the rest of the world had a little better than average production but the result, because of the North American decline, was a net reduction in world supplies of more than 1,000 million bushels or at the rate of 336 million per year. Since world consumption was fully maintained it was necessary to draw on the accumulated carryover for some 670 million bushels to satisfy the demand. That is, the decline in world supplies was great enough not only to stop further accumulation but to wipe out by 1937 all the excess that had existed.

NOW IN WORSE TROUBLE THAN EVER

But after the passing of the drought North America returned to full average production and in the three years 1937-39, despite the very low yield in Canada in 1937, contributed to world supply 1,065 million bushels more than in the preceding three years. This immediately restored a condition of excess. The policies making for expansion of acreages had continued in force in other countries and with good yields in 1938 and 1939 the rest of the world had record crops, so that even after satisfying an increased world demand an excess of some 858 million bushels had come to exist by the close of 1939-40.

Our present position is therefore clearly but a phase of a period which began about 1929. It was not created by the war but is now being made even more difficult by war developments. Our present problem is the same as that which

was intellectually solved in 1933. That it was not then solved practically was due to an altogether exceptional drought which removed all pressure from the situation. The problem was temporarily suspended but its causes remained.

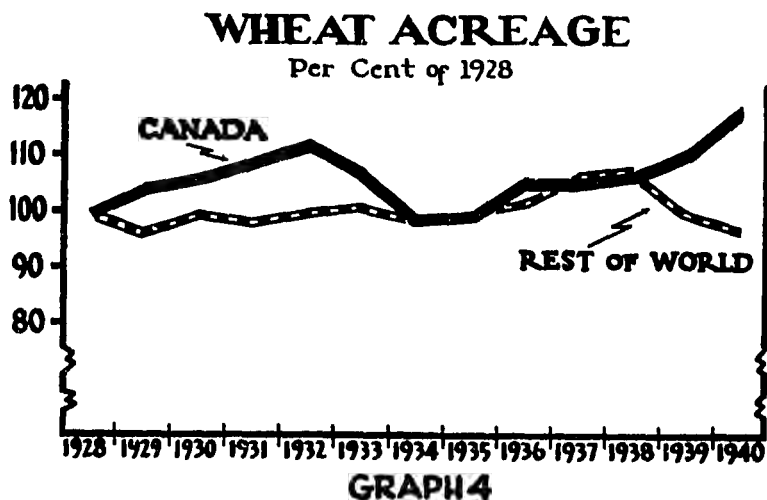
CANNOT RELY ON ANOTHER DROUGHT

For relief we cannot rely on the timely appearance of another Great Drought. Occasional dry years, perhaps two and once three in succession, have been experienced in Western Canada and may be expected in the future, but never before since wheat became a staple in the prairies was there a drought so prolonged or destructive. Never before had the crops of the United States and Canada been simultaneously affected to so great an extent and therefore never before had there been so great an effect on world supplies. There is authority among students of weather cycles for the view that similar periods may recur only at intervals of 40 or 50 years. However this may be, our immediate problem is the year 1941, which starts with satisfactory moisture conditions. Too little rain or extreme heat in the growing season may cut down the yield but it would be irrational to plan on the chance of a crop failure this year.

WHAT SHOULD BE DONE ABOUT IT ?

We come now to the question, What is to be done about wheat acreage in Canada this year? The conclusions of 1933 are the true lessons of experience and the guiding principle.

In applying this principle it will be well to have before us the curve of Canadian acreage since 1928 in comparison with that of the rest of the world. This is given in Graph No. 4. Official figures are used for Canada and compilations of the Food Research Institute for all other countries, which, however, do not include Russia, China, Iran and Iraq (see Appendix C). In the graph the figures are plotted as percentages of 1928.



Canada's curve presents three definitely marked phases -- a rapid rise from 1928 to 1932, a rapid fall in 1933 and 1934 and then a resumption of the upward trend, which after 1935 became pronounced and more notably so in 1939 and 1940. Comparing the two curves it will be observed that between 1929 and 1938 there was, in varying degree, a correspondence in general trend, but since 1938 there has been absolute contrariety.

A detailed examination of these curves from the standpoint of government policies during the period would be of interest, but our immediate concern is with the last phase, which shows the trend with which we must now deal. What have been the conditions in Canada since 1935 under which acreage has been so greatly increased and Canadian producers in the last two years have acted differently from those in the rest of the world?

A GUARANTEED MINIMUM PRICE

The developments cannot be unconnected with government measures. No definite concerted action having resulted from the London Agreement, the Dominion government had proceeded with special measures and in 1935 put into effect the policy of a guaranteed minimum price to producers. This was one of three plans originally urged upon it in 1930 by a deputation consisting of the premiers of the three prairie provinces and representatives of a large body of farmers. The other two plans had been tried out in the meantime.

HOW MANY ACRES?

The new policy placed no limit on quantities and provided no system under which quantities were to receive consideration. The conclusions of the Canadian governments in 1933 were not taken into account. The minimum prices since guaranteed have been low as compared to costs but in the last three years not low as compared with prices in the open international market. That they have not been so low as to deter production is manifest in the graph, and any price that does not check production is, if guaranteed, almost certain to expand it.

PRODUCER HAD ONLY ONE CHOICE

If a producer is in real need of income because the prices of all his products have been below normal parity and if the price of only one product is assured to him, he is placed in a position in which he must if he can produce more of that product. If a farmer, with seed in his barn, can by working longer hours plant an extra 10 or 20 acres, he can expect to reduce the unit cost of his whole crop and improve his chance of working out a margin above costs.

The government has been guaranteeing to producers an unlimited market in a world in which the market is limited. It has not itself assumed responsibility for an adjustment of supply to effective demand and has created conditions under which responsibility cannot be recognized by producers. It has been under these conditions that in the last two years when international prices were tumbling because of oversupply Canada has increased its acreage by 11 1/2 percent while the rest of the world was reducing acreage by 10 percent.

POLICY OR METHODS MUST CHANGE

If it be accepted that the trouble at the bottom of our whole wheat problem is uneconomically low prices and that the only remedy for this is the elimination of abnormal surpluses and the adjustment of supply to effective demand, then it is clear that there must be some change in policy or methods.

WHO SHOULD BE RESPONSIBLE?

If acreage is to be regulated it must be either by the powers of government or by the voluntary action of producers. Our farmers have, I think, made it perfectly clear they are not prepared to do their ploughing and sowing under dictation. The principle involved has received a great deal

of careful study and it may be worth while to recall that in one of the international conferences preliminary to the London Conference, held in Rome in 1931 and attended by representatives of 48 countries, the following resolution was adopted:

"It (the Conference) recognizes that it is impossible to secure a general reduction in the areas sown throughout the world by the direct method of obligatory restriction, whether advocated by an international body or by national bodies.

"It is convinced that the reduction of sowings can only be obtained by natural methods, by the farmers themselves, influenced by the conditions of the market and a study of the figures and facts".

GOVERNMENT ACTION NECESSARY

But in the present case the government could not immediately withdraw. Its enormous holdings of wheat, presently unsaleable, are one reason among several. If it remains an active factor it must assume appropriate responsibility and have a plan of operation. It has received many recommendations, has been advised by a committee of the Wheat Board and has promised an early announcement of policy.

The purpose of this article is to direct attention to the true objective of policy as revealed by a review of the facts. No doubt this objective may be approached by more than one path, each one beset with difficulties. Whatever plan is adopted by the government should meet a co-operative spirit and be allowed a fair test, on condition that it is being so administered that there is progress toward the objective. Therefore in offering a few observations on the details of possible plans it is not the intention to present a definite scheme but to assist toward a realization of what is involved and of the tendencies that may have to be resisted in administration if particular methods are employed.

ONE PLAN SUGGESTED

One plan suggested would divide responsibility for this year's acreage between the government and producers, thus being a sort of compromise in principle. Under it the government would decide what quantity of 1941 wheat

could be delivered on the market, while the producers would decide what quantity they could use on the farm for seed and feed. The producers would exercise their own judgments as to the acreage that should be planted to yield these quantities, but if more was produced they would, presumably, find themselves with farm surpluses they could neither use nor sell within the year.

A plan along these general lines would introduce the consideration of quantities into the planting program and to that extent effect an essential change. From an administrative point of view it would entail comparatively simple modifications in the existing system. The government might still guarantee a minimum price but would fix a maximum to the quantity; it has been setting marketing quotas for current periods but would set a marketing quota for a whole crop. It has on record the 1940 wheat acreage of every farmer and could use this as a basis for the 1941 quotas.

SOME OF THE DIFFICULTIES

A fundamental difficulty is that the government must consider not only what is economically sound and desirable as to quantity, and therefore ultimately in the best interests of producers and of the country as a whole, but also the immediate position of producers. The methods it adopts must not create impracticable or inequitable conditions during the year for producers situated as ours actually are. Under the above plan the government would seek to serve both of these clearly distinguishable objects by the one device, the guaranteeing of a market for a fixed quantity. Inevitably the decision as to the fixed quantity or the guaranteed price, or both, would be influenced by the amount of income it was considered the producers should have, instead of being determined, as it ought to be, by the need for the earliest possible relief from an oppressive surplus. There would be danger that neither object would be properly served.

EFFECTS OF AN ARTIFICIAL PRICE

To set a price relatively high as compared with basic world prices, would be undesirable. It could have no effect on the resale price of our surplus. That Canadian bread-eaters would pay more, is true. A direct tax on the consumption of staple foods may or may not be sound finance and it may or may not be wise to shift to breadeaters as a class a large share of the load, but to make the shift important the price must be extravagantly high.

Canadian wheat producers have less to gain from an

artificially high domestic price than have those of any other country, because the proportion consumed at home is smaller. To raise the net Fort William value to farmers of a 400 million bushel crop from 70 cents to \$1.00 per bushel, Canadian breadeaters would have to be charged \$3.10 per bushel. To accomplish a similar result on a 900 million bushel crop in the United States, the domestic price need be only \$1.20 per bushel.

WRONG PSYCHOLOGY

Then the general psychological effect of an artificially high price would be unfavorable. For one thing, it would tend to keep alive the fiction that the government of a surplus country can make prices. And it could hardly fail to have some influence, although unconsciously, on production. To raise the bid price as a method of securing a reduction in offerings is topsy-turvy psychology.

If a wheat farmer's income under a restricted program is made dependent entirely on his sale of a definite quota, he will want to be certain he has at least that much to sell, no matter what weather conditions might be experienced, and may overplant. In any but a drought year, farm surpluses might prove very troublesome. If income is not entirely dependent, or not dependent at all, on quota and guaranteed price, there would be greater freedom of judgment as to quantity.

THERE ARE OTHER METHODS

There are other methods to be considered either as substitutes for the above or for joint use to ease the difficulty just mentioned. If the object is fewer acres, an allowance per acre on the wheat acreage not planted to wheat this year is one direct method. It has precedents elsewhere and has been suggested here. It is simple and direct in principle but its details would require careful study and a good deal of administrative work would be involved, although the 1940 records could be used as a base. But what has already been said may sufficiently indicate the nature of the administrative problem and the tendencies that must be guarded against. Many roads lead to the objective and it is the government's responsibility to choose the one with fewest obstacles.

THE CHOICE OF POLICIES

If Canada produces more wheat in 1941 than disappears

within the crop year by consumption at home and export clearances, our position will have become even more serious and the effects of our excess on values and on costs more pronounced.

If, by quota or otherwise, production is restricted to exact disappearance we will have checked our retrograde movement but have made no forward progress out of our troubles.

By every standard, Canada now has too much wheat. In the interest of the early re-establishment of sound economic conditions we cannot produce too little this year. If we produced none at all it would not be too little, for we would still be carrying at its close a bigger special war reserve than business prudence or patriotism would dictate. A third general course open to public policy is therefore the production of less than current disappearance.

A complete wheat "holiday" is not to be considered feasible, if for no other reasons than that no government would be prepared to decree it and, unless under compulsion, it would not be universally observed. Practical objections to a very small quota for production would arise if a minimum income for wheat producers was made dependent on the quantity the government would buy from them, but the government has alternatives and need not unduly restrict its policy in that way. Weighing all considerations of political and other feasibility against the net business advantage to Canada of beginning to lighten its load, the case for production appreciably less than disappearance seems conclusive. Government policy and administration is to be judged from that standpoint.

EFFECTS ON OTHER COUNTRIES

Added to the case on internal grounds is the very potent consideration of the effect of Canadian policy on other countries. Canada's supplies are more out of line with world needs than those of any of our competitors and are the greatest single threat to the international market. Our excess this year would throw the whole world out of balance almost as seriously as in 1933 even if every other country held only normal working stocks. All the world knows this. Concerted action, at least by surplus countries, is very desirable if not absolutely necessary to a satisfactory world adjustment and years were spent prior to 1933 in trying to bring it about.

Our competitors are all now disposed to be sensible and have taken the initiative in reducing acreage and in creating powers to reduce it still further. The farmers of the rest of the world have already been acting, the governments of Argentina and Australia have announced plans under which acreage can be limited, the government of the United States has had that power since 1933 and in his final report as Secretary of Agriculture, made public on January 17, Vice-President Wallace has declared there must be large scale shifts in crop production for "growing unneeded crops is sheer waste of labor, of capital and of soil".

CANADA SHOULD CO-OPERATE

If Canada now fails to co-operate, the prospect for the future is drear. We cannot drive our competitors out of the wheat business and had better work with them. Both they and the deficiency countries have shown in the past, as in 1938, how positively they may react to Canadian policy as they interpret it. On the other hand, sensible action by Canada at this time would be the most "constructive" factor, as the market would term it, that could possibly be introduced. It might not at once alter the physical conditions materially but it would serve notice that the world's greatest exporter will contribute her share toward adjustment.

NOT CAUSED BY THE WAR

The problem will not be seen as it really is if it is supposed to have been created by the war. All the elements of the problem were present before the war began. In the first war year Canada had an export trade above average, world trade as a whole was up to average and world consumption of wheat was the greatest ever reported. The world's oversupply for this year was an accumulation over and above the normal scale of demand. It is only in the current year the war is limiting trade.

War is now making the problem more difficult but it had nothing to do with creating it. The ending of the war will not, by itself, solve the problem. It should bring back a normal volume of trade such as the world had up to August 1, last, and perhaps an extra demand in the first year or two of peace, but this extra demand may not even compensate for the below normal trade the world will now have till the war ends. It did not do so at the close of the last war. Anyway, existing reserves are superabundant.

AGRICULTURE MUST KEEP IN BALANCE

Canada has no divine right to grow wheat -- and get paid for it. We can, of course, grow all the wheat we choose, but the world will not give up a bigger proportion of its income, and thereby forego other satisfactions, merely because we grow more than it wants. The world has been getting what wheat it wants from an average of 17 out of every 100 acres of cultivated land. Western Canada has chosen to plant 60 acres to wheat out of every 100. This is running a risk.

In the continuously changing world conditions, one economic function after another is always tending to get a little out of balance and to require readjustment. Agriculture cannot be the sole exception. Such temporary readjustment as Canadian wheat growing may need could never be made under conditions which would cause less disturbance. Young men on the farms have responded as splendidly as all other classes to the call to arms and the urgent needs of war industries. For the time being there are fewer people directly dependent on farm income. A shortage of farm labor is already being reported or is apprehended. This condition will facilitate reduced production, if it does not finally force it. Whatever may be the case with other farm products, it would be a strange thing if the government used its powers to check the movement of wheat growers toward work of supreme national importance or to redirect labor to the growing of unneeded wheat. This is a strong reason why the terms the government makes for wheat should not require that any farmer must produce at least a set quantity in order to maintain himself.

GOOD GROUNDS FOR CONFIDENCE

While the problem is just as big and serious as the facts and figures show, it should not take long to work out an adjustment. Effective demand, pressed on over all obstacles by the expanding mass of world population, has been increasing all the time, but not quite as fast as the artificially stimulated production. What are the facts? Taking the whole period covered in this review, from the base period, 1922-3 - 1926-7, up to 1939-40, and using the compilations of the Bureau of Agricultural Economics of the United States Department of Agriculture (see Appendix D), average world disappearance by periods has been as follows:

HOW MANY ACRES?

World Disappearance (ex Russia and China)

Average 5 years	1922-3	-	1926-7	-	3,371	million bushels
"	"	"	1927-8	-	1931-2	- 3,776 " "
"	"	"	1932-3	-	1936-7	- 3,812 " "
"	3	"	1937-8	-	1939-40	- 3,977 " "

Disappearance in the last 3 years averaged 165 million bushels per year above that of the preceding 5 years and no less than 606 million per year above that of the base period. World production between 1928 and 1933 was too great for that period but would have been too small for actual consumption in the last three years. It is not a question of permanent curtailment but only of keeping pace with the world.

At terrible cost to Canada, the Great Drought corrected the 1933 position. The world is again in deep trouble, but if production in the last three years had been cut by a mere 7 percent there would have been no excess at all last August, the price position would have been firm and our only problem now would be the effects of the war on this year's trade. The percentages involved are small.

BUT MUST GET RID OF THE EXCESS

But the present position must be put straight before it can be kept straight. With only slight percentage adjustments from time to time it can be kept straight, but so long as a great excess exists and is carried forward from year to year, prices will be demoralized and costs will pile up. This was realized in 1933 and must determine policy now.

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APPENDIX A.

WORLD CARRYOVER (ex Russia and Asia)
-FOOD RESEARCH-
(Millions of Bushels)

	WORLD		CANADA	
	Carryover	Excess	Carryover	Excess
Aver. 1923-7	542	0	39.6	0
1928	651	109	91	51
1929	911	369	127	87
1930	874	332	127	87
1931	924	382	139	99
1932	950	408	136	96
1933	1,118	576	218	178
1934	1,188	646	203	163
1935	939	397	214	174
1936	752	210	127	87
1937	512	-30	37	-2
1938	593	51	25	-14
1939	1,150	608	103	63
1940	1,400	858	301	261

APPENDIX B.

LIVERPOOL PRICES
In pence per hundred and percent

	Pence	Index No.
	Per Cental	1925-26=100
1925-26.....	137.8	100
1926-27.....	131.3	95.3
1927-28.....	124.2	90.1
1928-29.....	109.3	79.3
1929-30.....	101.1	73.4
1930-31.....	58.9	42.8
1931-32.....	59.1	42.9
1932-33.....	59.9	43.5
1933-34.....	54.0	39.2
1934-35.....	61.5	44.6
1935-36.....	74.3	54.0
1936-37.....	104.9	76.1
1937-38.....	90.0	65.3
1938-39.....	53.7	39.0

HOW MANY ACRES?

APPENDIX C.

WORLD ACREAGE

(Canada-Official returns - other countries compiled from returns of Food Research)

	CANADA		OTHER COUNTRIES (ex Russia & Asia)	
	Acres	%	Acres	%
1928.....	24,119,110	100	242,300,000	100
1929.....	25,255,002	104.9	233,800,000	96.5
1930.....	*25,745,000	106.8	241,900,000	99.8
1931.....	*26,355,136	109.5	239,400,000	98.8
1932.....	27,182,100	112.9	243,000,000	100.3
1933.....	25,991,100	107.9	245,100,000	101.2
1934.....	23,985,000	99.6	240,400,000	99.2
1935.....	24,115,700	100	243,000,000	100.3
1936.....	25,604,800	106.2	250,400,000	103.3
1937.....	25,570,200	106.2	259,700,000	107.2
1938.....	25,930,500	107.5	261,900,000	108.1
1939.....	26,756,500	111.2	243,500,000	100.5
1940.....	28,726,200	119.1	236,800,000	97.7

* Census Returns.

APPENDIX D.

WORLD CROPS AND CONSUMPTION (ex Russia and China)

- U.S. Dept. of Agriculture - (Millions of Bushels)

	Disappearance		Production	
1922-23....	3,289		3,218	
1923-24....	3,410		3,535	
1924-25....	3,293		3,143	
1925-26....	3,343		3,396	
1926-27....	3,519		3,504	
5 Yr. Aver.		3,371		3,359
1927-28....	3,624		3,683	
1928-29....	3,736		4,005	
1929-30....	3,666		3,582	
1930-31....	3,903		3,894	
1931-32....	3,950		3,877	
5 Yr. Aver.		3,776		3,808
1932-33....	3,792		3,876	
1933-34....	3,833		3,848	
1934-35....	3,804		3,561	
1935-36....	3,816		3,602	
1936-37....	3,816		3,584	
5 Yr. Aver.		3,812		3,694
1937-38....	3,811		3,852	
1938-39....	4,066		4,605	
1939-40....	4,052		4,269	
3 Yr. Aver.		3,977		4,242
1940-41....	?		4,116	